

Moscow Financial Weekly

For the week ending May 30, 2003
Treasury Attache's office, U.S. Embassy Moscow

Highlights

- VTB and EBRD sign MOU regarding future sale
- Moscow Narodny Bank builds up its liquidity

Key Economic Indicators

Indicators	Level	% chg 1 week	% chg since Jan. 1
Ruble/\$ (MICEX) UTS	R30.7326	0.01	-3.31
Monetary Base*	R1043.1 bln	1.56	10.93**
CPI	NA	NA	6.2
International Reserves*	\$63.1 bln	5.34	32.29
RTS Index (end of week)	467.10	2.88	30.09
Refinancing rate	18	0	-3

*For week prior

** % chg from the abnormally high seasonal level at the end of the year.

Economic Developments

According to data from the Ministry of Economy and Development (MEDT), the **trade balance surplus** during the first four months of the year totaled \$19.9 billion. Exports increased by 31.1% to \$40.7 billion, while imports showed more modest growth of 18.9%, to a total of \$20.8 billion. The increase in imports is attributed to strengthening domestic consumption, but this increase has been tempered by a stronger euro, as 40% of Russian imports are from the eurozone.

Banking sector

The **annual meeting of the Association of Regional Banks "Rossiya"** took place in Moscow on May 28. Aleksandr Mourychev, Chairman of the Association, told the meeting that during the past year, 82 credit organizations joined the Association, thus increasing its membership to 243. Many of the newcomers are Moscow banks; the share of Moscow banks has reached 36%.

Andrey Kozlov, CBR First Deputy Chairman, told the "Rossiya" meeting that the CBR had prepared a new instruction according to which the **CBR will assess the**

For the week ending May 30, 2003

qualifications and business reputations of top management and board members of banks. (This is also a requirement of banks wishing to participate in the deposit insurance scheme, as proposed by the Government and CBR.) Kozlov did not disclose the criteria; he only said that managers of bankrupt banks would not be admitted to top banking positions. Kozlov also said that a new instruction governing mergers and acquisitions (12-P) has been prepared. It will simplify the procedures and reduce the time given to the CBR to examine appropriate documents from the current six months to four in the case of a merger, and to three in the case of an acquisition.

On May 27 Vneshtorgbank (VTB) and the EBRD signed a mandate letter regarding the **purchase of VTB shares by EBRD**. Neither party released any statement, but Vasily Titov, Vice-President of VTB, confirmed the fact. He explained to *Kommersant*-daily that the document "formulates the basic parameters of EBRD's participation in VTB capital including approximate size of investment". According to Titov, EBRD will invest between \$150 million and \$300 million. With the mandate letter signed, EBRD may officially start its own pre-sale assessment of VTB. Simultaneously, a working group comprised of Minfin and VTB representatives will complete a package of documents, the most important of which will be the shareholders agreement. It will reflect the VTB share price, equity structure, shareholder protection mechanisms and basic principles of coordination between the GOR (as the principal shareholder) and EBRD (as the minority shareholder).

On May 29 the Board of Directors of International Finance Corporation approved a 5-year **\$100-million loan to Moscow Narodny Bank (MNB)**. The loan will be used to finance exports from Russian companies. As perhaps a reason why the bank is building up its liquidity, MNB President Igor Suvorov proposed that the CBR sell 20-30% of MNB this year. Suvorov said that MNB management is willing to buy at least half of this stake. However, he gave assurances that the IFC loan would not be used to purchase any stake in MNB.

According to *Vedomosti*, **Interros plans to buy the OVK banking group**, built by Aleksandr Smolensky on the ruins of SBS-Agro and consisting of 47 main branches and 325 branch offices all over Russia. If the negotiations succeed, Rosbank, the banking center of the Interros group, will become the second largest retail bank in Russia, behind Sberbank.

CBR Chairman Segey Ignatiev officially re-nominated Georgy Luntovsky to the Board of Directors. Deputy Chairman Luntovsky first became a Board member four years ago; his term expires on June 25. CBR Board members have to be approved by the State Duma.

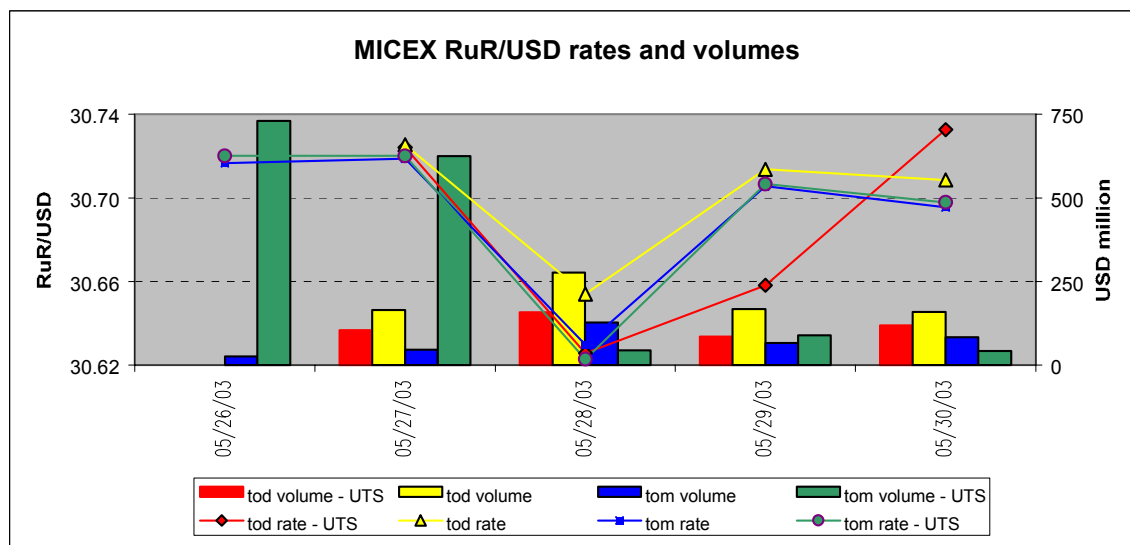
Financial markets

Forex Market

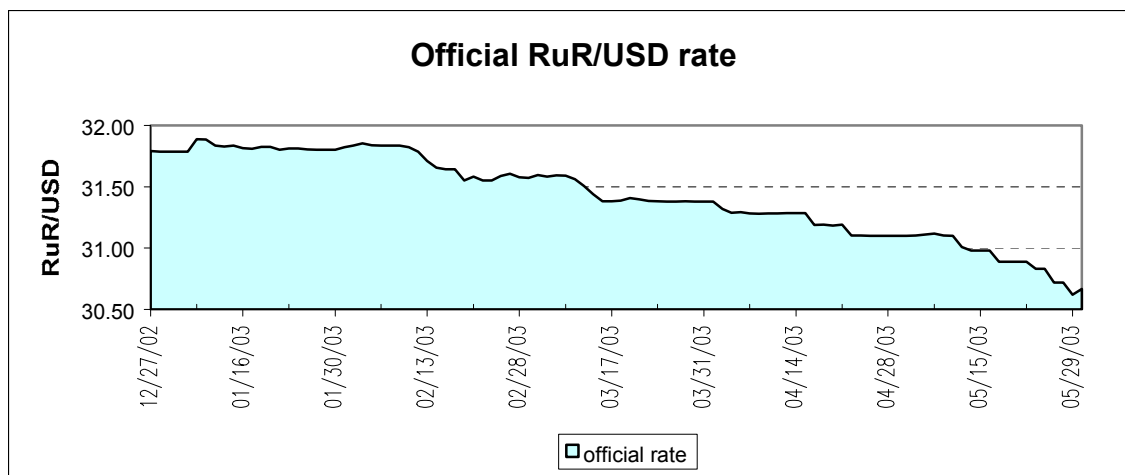
On Monday, the dollar with same-day delivery was not traded because of the Memorial Day holiday in the U.S. "Tom" dollar rates, as well as the official rate for the next day,

fell sharply to around R30.72/\$, the new level of CBR support. On Tuesday MICEX trading began nervously, with the dollar priced a few kopeks below the official rate, but the CBR continued to defend the dollar at the R30.72/\$ level until the afternoon. When the CBR suddenly abandoned the market, the dollar resumed sliding down against the ruble. On Wednesday morning it reached its low point that week of R30.58/\$. After that, an upward correction began and MICEX averages for the day were in the range of R30.6229-R30.6540/\$. Banks had oversold dollars over the previous few days, and in the afternoon the rate on interbank dollar loans surged to 10% p.a., while the rate on ruble loans remained below 2% p.a. The dollar began appreciating against the ruble, and on Friday the CBR was selling dollars at R30.76/\$. It was probably the first time in several months that the CBR intervened to protect the ruble.

For the week the dollar inched up 0.01% against the ruble, closing in the UTS "tod" on May 30 at R30.7326/\$. MICEX weekly trade volumes were \$466.84 million and \$1530.56 million, \$768.33 million and \$349.62 million for the UTS "tod" and "tom" sessions, and SELT "tod" and "tom" sessions, respectively.

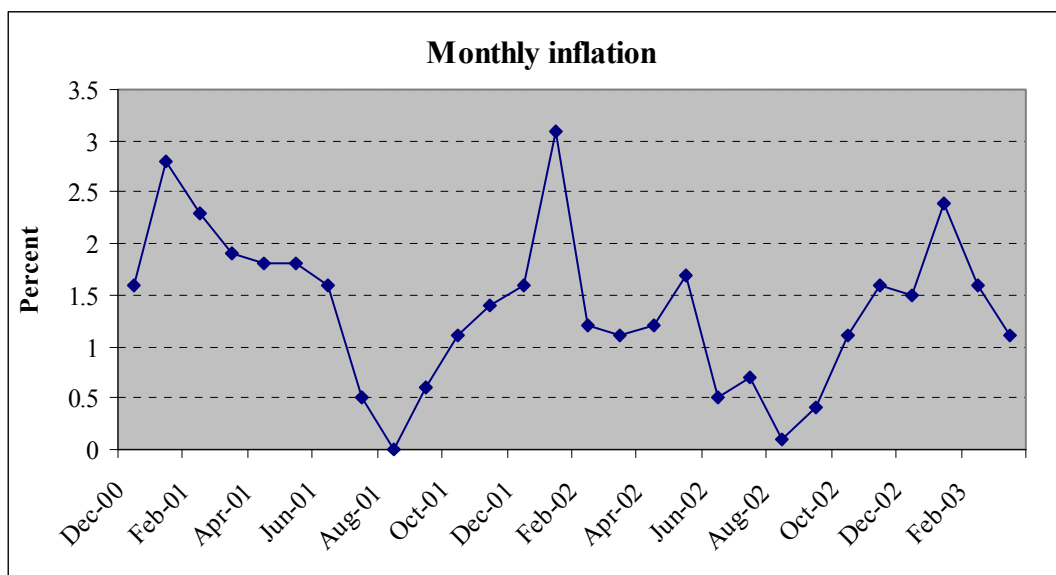


For the week ending May 30, 2003



Prices

According to the Deputy Minister of the Ministry of Economic Development and Trade (MEDT) Arkadiy Dvorkovich, inflation in May should not exceed 1%. This seems plausible, because inflation during the first 20 days of the month was only 0.5%. During the first four months of the year, prices increased by 6.2% compared to 6.6% for the same period last year.



Eurobonds

The Russian Eurobond market reached new highs again last week. The demand from domestic players was very strong. The price of the Euro-30 reached 97 3/4 of par, which

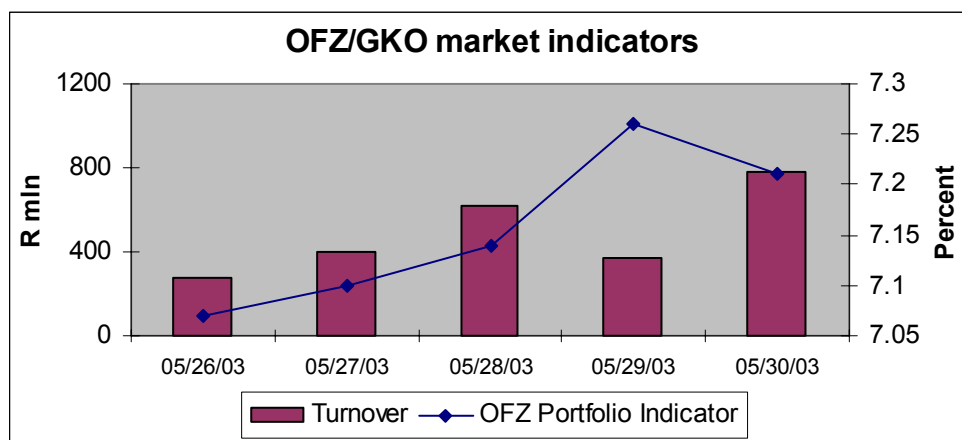
For the week ending May 30, 2003

corresponds to a yield of 6.8%. The main reasons for the upsurge were the increased demand for emerging-market debt, and an increase in foreign exchange reserves to a record high level.

Interest/Bond Market

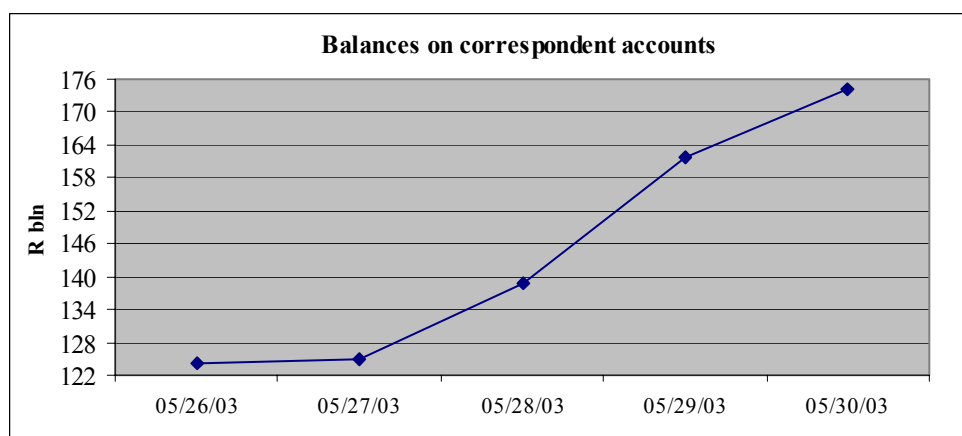
Bonds/Bills

The secondary OFZ/GKO market saw a downward price correction last week, with the yields of long-term paper rising the strongest. Ruble liquidity was very high last week, so the end-of-month selling pressure was not as strong as usual. The paper is overvalued, though, so some adjustments were expected, especially for longer-term paper.

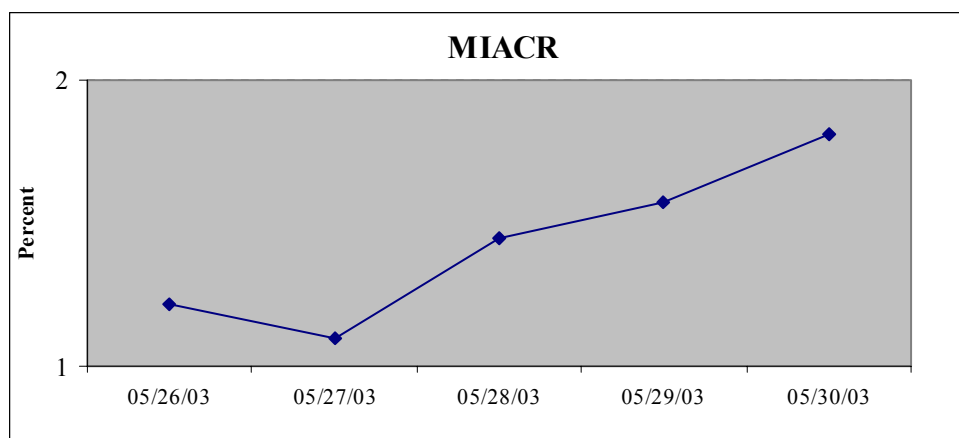


Overnight rates

Balances on banks' correspondent accounts increased throughout this week, just as it had during the previous week, reaching a maximum of R174.1 billion as of Friday. The overnight interbank ruble loan rates were at a low 1-2%.

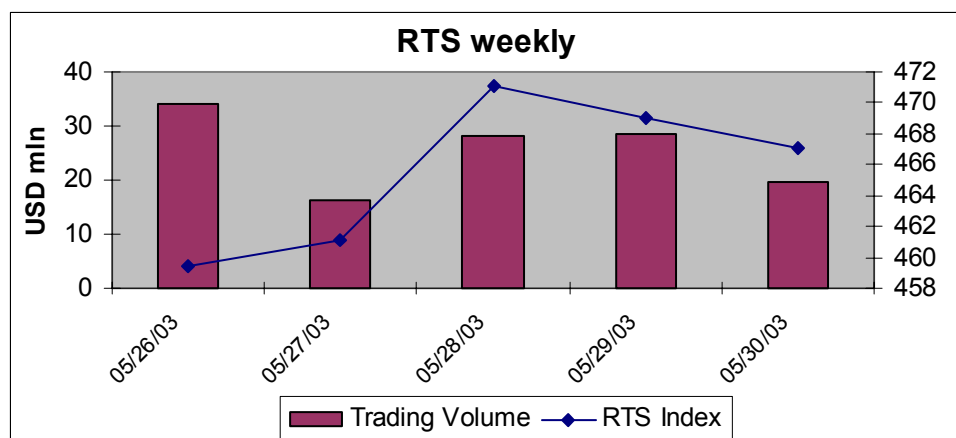


For the week ending May 30, 2003

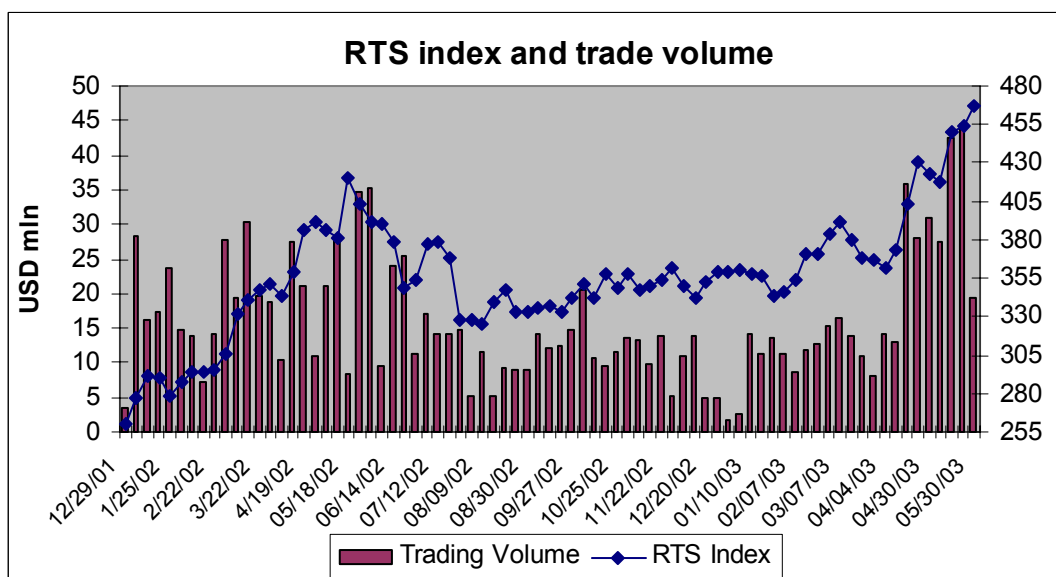
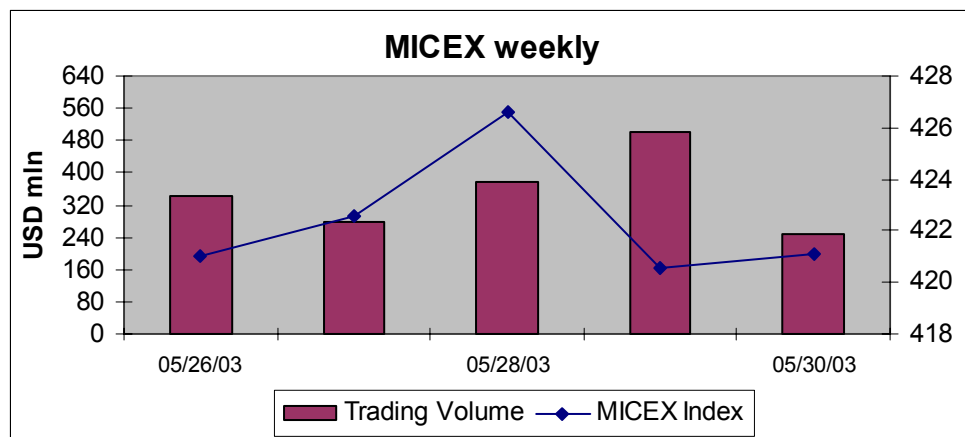


Stock Market

Last week, the stock market reached new highs not seen in several years, fueled by continued excess domestic liquidity. The RTS index was 471.15 on Wednesday; the last time the index was at a similar level was the end of October 1997. Later in the week, share prices experienced some downward corrections and the RTS index fell to 467.1, but still was up by 2.87% for the week in dollar terms. Trading volumes were at average levels last week. The week was characterized by stable demand for less liquid shares such as regional energos, no doubt because of the publication of the RAO UES restructuring plan the previous Friday, in which large shareholders will retain the right to gain control of key regional energy assets using RAO UES stock as currency. Surgutneftgaz preferred shares were also in demand, with prices surging by 4% for the week.



For the week ending May 30, 2003

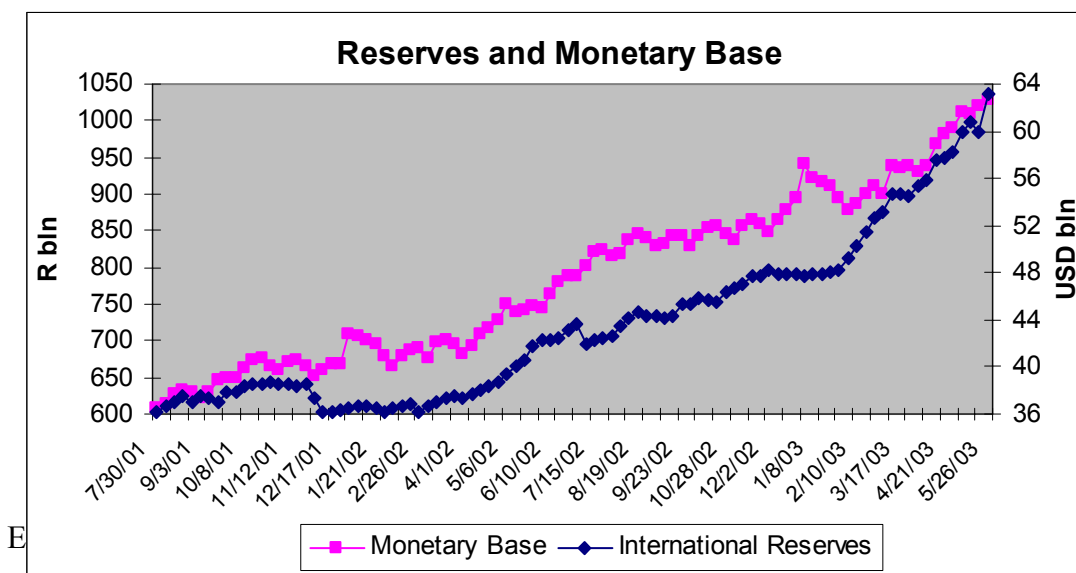


International Reserves and Monetary Base

After declining slightly in mid-May due to foreign debt payments, the CBR's international reserves resumed their strong growth. As of May 23, reserves were at a historic high of \$63.1 billion, which is \$3.2 billion higher than the previous week. The growth in reserves continues to be fuelled by high export proceeds and the large trade surplus.

The monetary base was up by 1.56% or R16 billion for the week and totaled R1043.1 billion as of May 26, 2003.

For the week ending May 30, 2003



1. EXCHANGE RATES: SELT - "System of Electronic Lot (currency) trading" -- a computer based OTC-style trading system organized by the Moscow Interbank Currency Exchange (MICEX). MICEX Unified Trading Session (UTS) is the one in which exporters have to sell 50% of the repatriated currency. UTS "tom" weighted average as of 11:30 becomes the "official" exchange rate for the next day. "\$-tod" price is the price of the dollar with same day delivery. "\$-tom" is the price of the dollar with delivery on the next day. Minimum lot size for each of the dollar instruments is \$100,000. Average price is quoted as the weighted average of all actual deals entered into the system by various banks.

2. INTEREST RATES: Moscow InterBank Actual Credit Rate is calculated as the average-weighted rate on the volume of actual transactions in interbank loans by commercial banks.

3. STOCK INDICES: The RTS index is the only official indicator of the Russian Trading System. It is calculated every 30 minutes of the RTS trade session, starting at 12:00. It comprises 60 shares of 35 leading companies. These shares are included in so-called Category "A" listings. The index indicates over-the-counter stock prices. The index represents the ratio of the total market capitalization of the shares of the companies selected for the index to the total market capitalization of the same shares as of the initial date multiplied by the index value as of the initial date (31 December 1997) using a base of 100 beginning September 1, 1995. The ruble-adjusted index is a derivative of the main dollar index, using the same base. The MICEX index is calculated by the stock section of the Moscow Interbank Currency Exchange and is based on the price fluctuations of 17 shares of the MICEX's first and second listings.

4. INTERNATIONAL RESERVES OF THE RUSSIAN FEDERATION represent the amount of reserve assets of the Bank of Russia and Finance Ministry. Those reserve assets are comprised of monetary gold, special drawing rights, the reserve position in the IMF and other liquid foreign assets. The latter include short-term deposits in non-resident and resident banks, balances in current accounts, foreign government securities, repo agreements with these securities made with non-residents, and other liquid assets (accrued interest on these assets is not included). Monetary gold is evaluated at a floating rate, revised periodically, but not always reported immediately. Foreign currency assets are converted into U.S. dollars on the basis of the cross rates of foreign currencies to the dollar, calculated using the official rates of the ruble to these foreign currencies, as set by the CBR.

5. MONETARY BASE (M1) is comprised of cash and reserves of commercial banks on deposit in the CBR. It is the basic part of the money supply (M2).

6. LOMBARD CREDITS, distributed through auctions, are aimed to provide liquidity to the banking sector. These credits are extended to banks on the basis of collateral.